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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 288

May, 1984

Business in Virginia

April, 1984 Data

Last month we reported that Virginia's growth in March generally had slowed down from the hectic pace in January and February; but, the growth rates still were very high and several more quarters of economic expansion could be expected. The April data reinforce that diagnosis. On balance, the Commonwealth in April continued to expand at the same pace as in March. Therefore, the Virginia economy is making the transition from rapid recovery to slower but steady expansion very smoothly, without the very erratic monthly swings in growth rates which we have witnessed at the national level.

During a transition period, though, some erratic behavior is to be expected, and all sectors do not move in tandem. Two of our leading indicators, building permits and new car registrations, followed very different paths. Building permits in April were only 12.3 percent above April 1983, after growing by 47.1 percent in March. However, this slowdown in growth is most likely a natural pause after the very high growth rates earlier in the year. It occurred too early to have been in response to the recent rise in interest rates. The growth in May should remain steady or slightly increase, in spite of the concern over interest rates. In contrast, new car registrations showed a slightly higher year-over-year growth in April, 19.9 percent, than in March, 19.7 percent. Thus, the demand for consumer durable goods remains unexpectedly high. This demand also is reflected by a third leading indicator, the March taxable retail sales reported by the Virginia Department of Taxation, which were up 27.5 percent over March 1983, a gain which exceeded not only the January and February rates but also the December rate. Therefore in Virginia there is no evidence that the high consumer demand for durable goods, which has been a major force in the recovery here and in the nation, is reaching its peak.

The two indicators which tend to coincide with overall economic activity, electricity consumed and our sample survey of retail establishments, rather surprisingly showed lower growth in April than in March. Electricity consumed grew by 2.8 percent, versus 9.0 percent in March; and the retail sales sample gained 6.9 percent compared to 8.4 percent in March. However, these lower growth rates are not an ominous signal since the leading indicators do not follow that pattern.

The economic measure of most interest to individuals and government during a recovery is employment, and growth in this key indicator tends to advance later than general economic growth rates. The latest figures we have, for March, showed a 4.7 percent year-over-year growth, the same rate of advance as in February. Thus employment growth is remaining high and steady, a sign of continuing strength. Confirmation also comes from the behavior of

bank debits, which are a measure of the total spending done with checks. In April, bank debits were 9.4 percent above April 1983, compared to the reported growth of only 3.7 percent in March. Therefore total spending for all purposes appears to be picking up again after a weak performance in March.

In general, six of the ten economic indicators showed steady or rising growth; three revealed weaker but still positive growth; and only one, postal receipts, actually declined in April compared to April 1983. Those results, supplemented by considering the normal cyclical behavior of the individual indicators, lead to the conclusion that the Commonwealth is continuing to expand at a steady pace.

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Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change April, 1984 from April, 1983

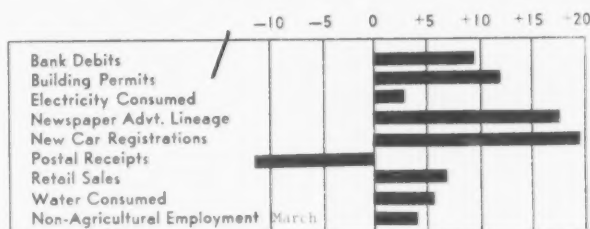
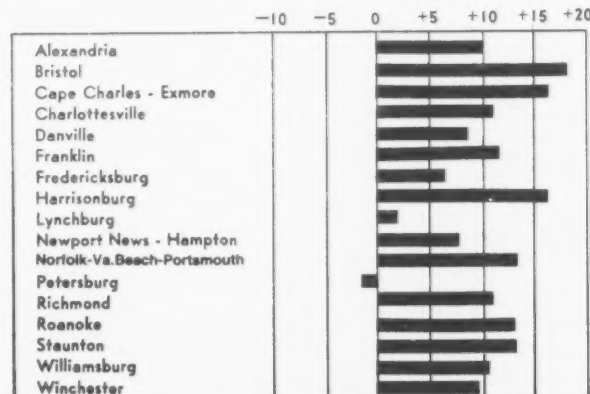


Chart II

City Indices

Percentage Change April, 1984 from April, 1983



**SELECTED BUSINESS AND ECONOMIC INDICATORS
FOR 17 CITIES**

TABLE I April, 1984

Monthly Index Number Comparisons of Current Month to
Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADVERTISING	NEW CAR REGISTRATIONS	MARCH NON-AGRICULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		329.0	164.7	116.6	113.1	161.5	115.0	87.0	117.7	166.6
Alexandria	184.6	423.9	186.4	116.9	N.A.	176.3	130.2	81.9	164.4	N.A.
Bristol	121.8	212.3	116.1	109.7	73.2	50.3	N.A.	87.4	117.6	150.7
Cape Charles - Exmore	159.3	386.6	368.9	102.1	N.A.	126.7	N.A.	N.A.	119.5	143.0
Charlottesville	193.1	276.0	150.9	111.5	N.A.	176.0	N.A.	108.4	225.4	196.9
Danville	131.4	N.A.	79.0	101.8	116.5	124.4	N.A.	86.3	147.4	178.2
Franklin	127.4	N.A.	7.1	99.5	112.7	170.2	N.A.	94.2	125.7	165.1
Fredericksburg	176.8	199.3	6778.1	N.A.	136.0	238.1	N.A.	54.5	195.0	201.8
Harrisonburg	164.6	262.0	114.7	N.A.	157.2	121.0	N.A.	120.8	169.4	147.4
Lynchburg	198.6	403.5	192.1	113.6	N.A.	150.9	N.A.	99.1	148.2	177.1
Newport News - Hampton	141.1	234.6	100.9	105.4	104.1	133.6	110.0	100.4	150.2	N.A.
Norfolk - Va. Beach - Portsmouth	160.3	273.4	163.3	126.0	119.5	150.9	121.8	72.7	246.7	N.A.
Petersburg	126.5	157.5	4.1	N.A.	77.4	109.3	N.A.	110.7	138.0	142.7
Richmond	166.0	352.3	N.A.	129.1	116.6	173.8	114.6	81.2	158.4	N.A.
Roanoke	154.4	192.2	73.6	96.9	148.6	112.1	107.6	98.6	182.5	193.6
Staunton	117.8	143.5	114.4	N.A.	125.0	136.8	N.A.	N.A.	115.1	74.1
Williamsburg	132.5	68.7	250.7	137.4	N.A.	162.5	N.A.	87.8	127.7	220.1
Winchester	166.0	332.1	169.7	120.6	162.2	164.2	N.A.	123.1	113.1	252.3

TABLE II April, 1984

Percentage Change from same month last year:

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADVERTISING	NEW CAR REGISTRATIONS	MARCH NON-AGRICULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	MARCH RETAIL SALES ‡
The State		9.4	12.3	2.8	17.4	19.9	4.7	5.5	6.9	27.5
Alexandria	10.0	41.5	-75.8	-0.4	N.A.	22.1	6.3	0.0	2.2	39.1
Bristol	18.3	4.6	78.5	2.7	3.7	15.6	3.4	-0.2	40.1	23.9
Cape Charles - Exmore	16.9	140.7	135.1	-1.3	N.A.	4.3	N.A.	N.A.	-14.2	16.3
Charlottesville	10.7	42.0	68.6	5.0	N.A.	29.3	2.5	0.7	-0.8	29.9
Danville	8.6	N.A.	26.0	3.7	21.0	11.1	2.3	1.7	7.5	14.4
Franklin	11.1	N.A.	-36.2	4.3	5.8	40.4	N.A.	5.2	7.4	-3.5
Fredericksburg	6.6	6.2	-79.1	N.A.	8.1	38.6	N.A.	6.6	-4.4	40.7
Harrisonburg	16.0	48.7	659.4	N.A.	7.0	17.8	N.A.	10.3	9.4	40.3
Lynchburg	2.1	-20.2	132.9	4.2	N.A.	1.0	4.4	-4.2	11.4	18.9
Newport News - Hampton	7.6	6.8	23.3	6.5	24.2	12.3	6.4	1.3	3.3	23.1
Norfolk - Va. Beach - Portsmouth	13.7	34.4	36.0	4.0	14.7	10.5	5.4	16.5	9.7	25.3
Petersburg	-1.7	-23.0	-87.7	N.A.	9.1	9.2	-1.4	-9.9	0.9	11.9
Richmond	10.9	13.6	122.5	3.1	21.5	30.3	3.3	3.3	5.1	23.7
Roanoke	13.0	-17.6	-54.9	6.0	23.8	14.2	4.2	3.9	24.5	20.5
Staunton	12.9	33.6	30.2	N.A.	16.1	50.8	N.A.	N.A.	-7.8	20.3
Williamsburg	10.2	44.1	40.2	3.0	N.A.	5.3	N.A.	13.0	2.3	26.6
Winchester	9.2	8.8	124.8	10.8	9.9	20.1	N.A.	17.5	2.2	48.9

TABLE III

Percentage Change January - April from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADVERTISING	NEW CAR REGISTRATIONS	JAN-MAR NON-AGRICULTURAL EMPLOYMENT†	WATER CONSUMED	RETAIL SALES †	JAN-MAR RETAIL SALES ‡
The State		13.4	38.9	11.4	13.0	25.0	4.8	5.4	7.6	24.6
Alexandria	15.7	34.7	17.9	8.3	N.A.	24.0	6.4	3.5	13.1	31.1
Bristol	19.8	-1.7	86.1	11.5	0.0	25.3	2.9	30.3	31.0	20.7
Cape Charles - Exmore	7.5	46.2	-20.6	-8.8	N.A.	43.3	N.A.	N.A.	-12.0	20.6
Charlottesville	11.5	46.1	196.5	11.2	N.A.	27.2	3.7	-9.4	1.9	23.7
Danville	10.1	N.A.	252.8	5.9	12.5	32.6	2.3	0.3	6.5	18.3
Franklin	11.2	N.A.	11.0	10.8	7.1	43.2	N.A.	-0.1	5.9	52.8
Fredericksburg	16.2	12.9	-64.1	N.A.	8.3	47.1	N.A.	8.0	12.3	44.5
Harrisonburg	13.6	34.2	209.5	N.A.	10.1	8.1	N.A.	8.2	11.5	33.9
Lynchburg	8.7	-11.3	-36.3	8.4	N.A.	21.6	4.6	9.6	10.9	27.0
Newport News - Hampton	9.6	16.0	38.8	9.8	17.6	18.0	6.3	10.0	1.8	17.7
Norfolk - Va. Beach - Portsmouth	16.0	50.0	31.3	11.3	14.1	18.4	5.9	7.9	8.7	23.3
Petersburg	-0.1	-17.7	171.7	N.A.	-0.7	21.8	-2.1	-8.3	1.3	13.6
Richmond	12.6	6.9	128.3	21.4	16.1	33.6	9.1	4.9	5.9	21.0
Roanoke	12.7	20.4	-30.9	11.1	15.0	26.5	3.9	6.9	7.2	24.2
Staunton	8.2	27.5	8.0	N.A.	6.0	25.1	N.A.	N.A.	-3.2	6.4
Williamsburg	8.4	10.2	184.7	10.2	N.A.	20.9	N.A.	18.2	-0.2	17.1
Winchester	11.2	10.5	55.5	14.2	10.1	23.8	N.A.	16.5	4.9	31.7

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits, which is excluded because of its highly erratic nature, and the two lagging indicators.

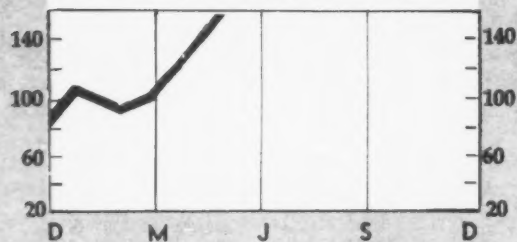
†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.

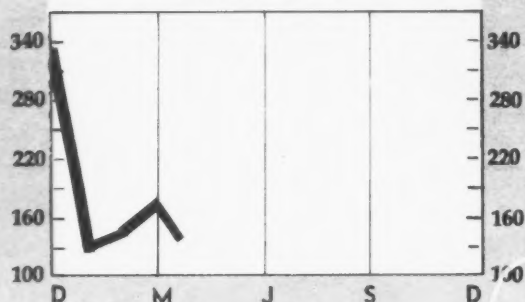
§Virginia Employment Commission data which lag behind current reports.

N.A. — Not Available
O.O. — No Change

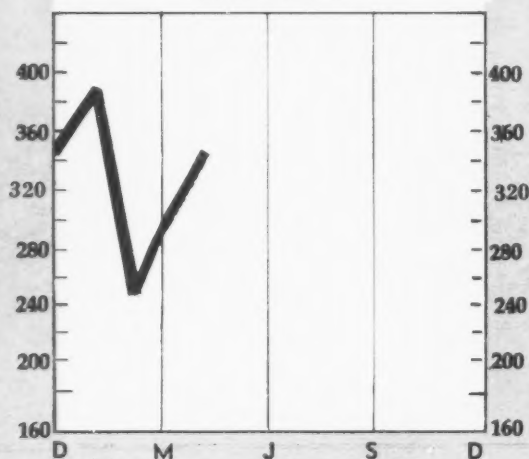
NEW CAR REGISTRATIONS



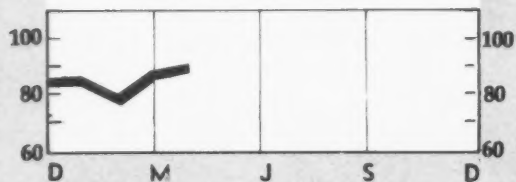
RETAIL SALES



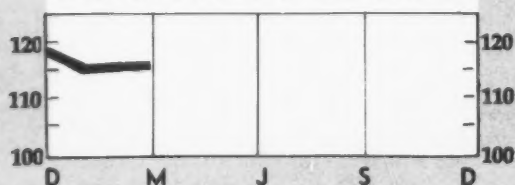
BANK DEBITS



WATER CONSUMED



NON-AGRICULTURAL EMPLOYMENT

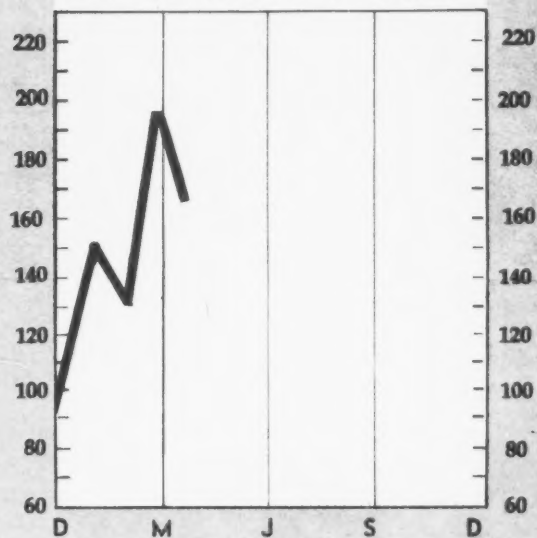


Monthly Indices

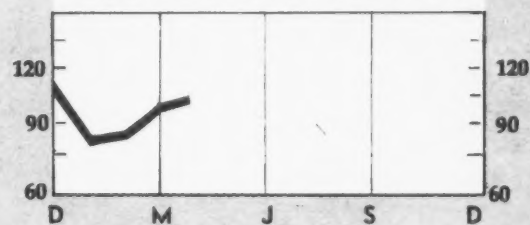
1984

1983

BUILDING PERMITS (\$ VOLUME)



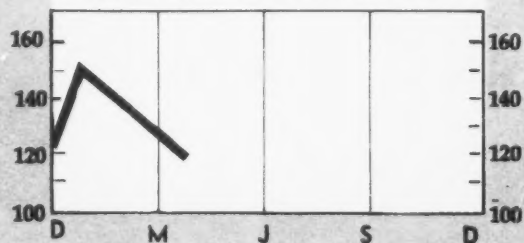
NEWSPAPER ADVERTISING LINEAGE



POSTAL RECEIPTS



ELECTRICITY CONSUMED (KWH)



Economic and Financial Outlook for 1984 — May Update

(This guest commentary was written by Reynolds Professor John Parkany, formerly Vice-President and Senior International Economist, Wells Fargo Bank.)

The first four months of 1984. Real G.N.P. growth in the first quarter of 1984 registered 8.8 percent at an annual rate. This is an unusually strong rate of growth in the second year of an economic recovery. Practically all data published in April for the month of March, the final month of the first quarter, showed a significant slowdown in the rate of economic growth. However, the data published in May for the month of April again shows a resumption of vigorous economic growth in the second quarter of 1984. Interest rates remained unchanged in April but increased in the first half of May.

The interest rate question. By all previous standards interest rates are high. Except for relatively brief periods, such as during the 1973-1974 and 1980-1982 "credit crunches," the U.S. economy had much lower interest rates. The present level of interest rates is especially high when the interest rates are expressed in "real terms," i.e., after deducting from the nominal interest rates the rate of inflation. The bank prime rate at 12½ percent equals a 7½ percent real interest rate if we project the rate of inflation to be five percent, and residential mortgage rates at 14 percent are equal to a nine percent real interest rate. Until recently, in general terms, three percent real interest rates were considered normal.

The answer to the unusually high level of real interest rates lies in high inflationary expectations! In 1984 consumer prices are expected to increase about five percent. Real interest rates are at historically high levels even when a five percent rate of inflation is considered. It appears that the market is expecting a much higher rate of inflation in the future!

What about the decisions by consumers and businesses in the face of high interest rates? The "real incomes" of many consumers, that is their incomes after adjustments for inflation and taxes, are increasing for the first time in many years. Consumers postponed their discretionary purchases, such as the purchases of automobiles and other durable goods, for a long time. Consumer surveys taken in the spring of 1984 show record intentions of consumers to buy houses, automobiles and other durable goods. Reports of strong April retail sales are bearing out these predictions. Strong consumer sales are almost certain to continue through 1984.

How about businesses? After suffering sharp contractions, industrial production has been rising strongly for 17 months. The reported 1.4 percent increase in April shows that the demand for manufactured products continues to be firm and the outlook is for continued increases in industrial production through 1984. Business investments had dropped sharply since 1979 but they now are rising. Reports indicate that businesses plan to spend 12 percent more in real terms (that is, after inflation) in 1984 than in 1983. Much of the spending in 1984 is committed and financing for it is arranged. Thus, business spending will be firm in 1984 as well.

What about interest rates? There is an agreement that when the money supply grows faster than the economy, this

then fuels inflation. It is the Federal Reserve System which controls the money supply mainly through the purchase and sale of U.S. Treasury issues. The objectives of the Federal Reserve System are to promote economic growth consistent with the smallest possible rate of inflation. Right now the Federal Reserve System can note the continued existence of large unemployment, significant unused capacity in manufacturing firms, and improved rates of savings on the part of businesses and consumers. At present, the rate of inflation is low as indicated by no increase in the April Producers Price Index. Therefore steady real growth seems to require top priority.

In May interest rates have been increasing. The commercial banks raised the prime rate to 12½ percent and the auctions of U.S. Treasury securities showed successive increases in interest rates. Residential mortgage interest rates, usually lagging, continued to creep upward. The Federal Reserve System at this particular point in time will be very careful to avoid any action which would bring the recovery to an end.

What is ahead in the balance of 1984? Given the above considerations, it must be assumed that the Federal Reserve System will pursue an accommodating money supply policy. This would permit interest rates to remain unchanged for the rest of the year.

Because of the high foreign exchange value of the U.S. dollar and the much slower growth of our trading partners, the U.S. merchandise trade balance (that is, the excess of U.S. imports over U.S. exports) deteriorated rapidly in 1984. It is expected to register \$120 billion in 1984 (compared to \$70 billion in 1983). The U.S. current account balance (which combines the trade deficit, net services and transfer payments) is expected to show a deficit of \$100 billion in 1984 (compared to a deficit of \$41 billion in 1983). Such a vast deterioration in our external balances will result in a weakening of the U.S. dollar — a welcome development as it will strengthen our exports. This will be especially helpful to our manufacturing and our agriculture.

We foresee the following changes in the foreign exchange value of the U.S. dollar from its current level: A ten percent increase in Deutsche mark to 40.5 cents, a 12 percent increase in Swiss franc to 51.5 cents, and a 15 percent increase in Japanese yen to 0.495 cents by year end 1984.

We project that the U.S. economy will continue to grow at a robust rate — although slower than in the first quarter of 1984. We foresee that in the second, third, and fourth quarters of 1984 real G. N. P. will grow, on the average, at a five percent annual rate. The result for the year will be a six percent growth in real G. N. P. in 1984 over 1983. J.P.

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